

**REPORT OF THE AUDIT OF THE
BALLARD COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BALLARD COUNTY FISCAL COURT

June 30, 2006

Romaine & Associates, PLLC has completed the audit of the Ballard County Fiscal Court for fiscal year ended June 30, 2006.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Ballard County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$3,265,735 as of June 30, 2006. The fiscal court had unrestricted net assets of \$2,276,735 in its governmental funds as of June 30, 2006, with total net assets of \$3,216,474. In the enterprise fund, cash and cash equivalents were \$42,299 with total net assets of \$49,261. The fiscal court had total debt principal as of June 30, 2006 of \$3,486,557 with \$329,027 due within the next year.

Report Comments:

- The Quarterly Financial Report Should Be Accurate
- The Fiscal Court Should Approve All County Employees' Compensation Rates In Accordance With KRS 64.530(1)

Deposits:

The county's deposits were not fully insured and collateralized by bank securities. As of August 31, 2005, \$969,170 of the county's deposits were not secured by collateral by financial institution.

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To the People of Kentucky

Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Bob Buchanan, Former Ballard County Judge/Executive
Honorable Vickie Viniard, Ballard County Judge/Executive
Members of the Ballard County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ballard County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Ballard County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Ballard County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ballard County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The budgetary comparison information is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

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The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ballard County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purpose of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 24, 2007 on our consideration of Ballard County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of comments and recommendations, included herein, which discusses the following report comments:

- The Quarterly Financial Report Should Be Accurate
- The Fiscal Court Should Approve All County Employees' Compensation Rates In Accordance With KRS 64.530(1)

Respectfully submitted,

Krista L. Romaine, CPA

Krista L. Romaine, CPA

Romaine & Associates, PLLC

May 24, 2007

BALLARD COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Bob Buchanan	County Judge/Executive
Charles Allred	Magistrate
Richard Burnley	Magistrate
William Marshall	Magistrate
Robert Renfrow	Magistrate
Vickie Viniard	Magistrate

Other Elected Officials:

Michael Stacy	County Attorney
Stanley Hunt	Jailer
Lynn Lane	County Clerk
Faye Oldham	Circuit Court Clerk
Todd Cooper	Sheriff
Delores Hatler	Property Valuation Administrator
Robert Morrow	Coroner

Appointed Personnel:

Belinda Sullivan O'Neill	County Treasurer/Occupational
Jill Dupoyster	Finance Officer

BALLARD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

BALLARD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,537,268	\$ 42,299	\$ 2,579,567
Total Current Assets	\$ 2,537,268	\$ 42,299	\$ 2,579,567
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	\$ 221,845	\$ -	\$ 221,845
Buildings	3,530,211		3,530,211
Vehicles and Equipment	413,707	6,962	420,669
Total Noncurrent Assets	\$ 4,165,763	\$ 6,962	\$ 4,172,725
Total Assets	\$ 6,703,031	\$ 49,261	\$ 6,752,292
LIABILITIES			
Current Liabilities:			
Due Within One Year	\$ 329,027		\$ 329,027
Total Current Liabilities	\$ 329,027	\$ -	\$ 329,027
Noncurrent Liabilities:			
Due In More Than One Year	\$ 3,157,530	\$ -	\$ 3,157,530
Total Noncurrent Liabilities	\$ 3,157,530	\$ -	\$ 3,157,530
Total Liabilities	\$ 3,486,557	\$ -	\$ 3,486,557
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 679,206	\$ 6,962	\$ 686,168
Restricted For:			
Debt Service	260,533		260,533
Unrestricted	2,276,735	42,299	2,319,034
Total Net Assets	\$ 3,216,474	\$ 49,261	\$ 3,265,735

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

BALLARD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,689,185	\$ 630	\$ 213,300	\$ -
Protection to Persons and Property	1,110,333	521,631	133,775	50,000
General Health and Sanitation	24,144			14,600
Social Services	2,174			
Recreation and Culture	10,269			
Roads	1,148,377		1,156,065	
Interest on Long-term Debt and Short-term Debt	209,889			
Total Governmental Activities	\$ 4,194,371	\$ 522,261	\$ 1,503,140	\$ 64,600
Business-type Activities:				
Jail Canteen	\$ 4,830	\$ 5,135	\$ -	\$ -
Total Business-type Activities	\$ 4,830	\$ 5,135	\$ -	\$ -
Total Primary Government	\$ 4,199,201	\$ 527,396	\$ 1,503,140	\$ 64,600

General Revenues:

Taxes

In Lieu Tax

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,475,255)	\$ -	\$ (1,475,255)
(404,927)		(404,927)
(9,544)		(9,544)
(2,174)		(2,174)
(10,269)		(10,269)
7,688		7,688
(209,889)		(209,889)
<u>\$ (2,104,370)</u>	<u>\$ -</u>	<u>\$ (2,104,370)</u>
<u>\$ -</u>	<u>\$ 305</u>	<u>\$ 305</u>
<u>\$ -</u>	<u>\$ 305</u>	<u>\$ 305</u>
(2,104,370)	305	(2,104,065)
1,746,017	-	1,746,017
9,433		9,433
17,991		17,991
372,612		372,612
156,629		156,629
<u>\$ 2,302,682</u>	<u>\$ -</u>	<u>\$ 2,302,682</u>
198,312	305	198,617
3,018,162	48,956	3,067,118
<u>\$ 3,216,474</u>	<u>\$ 49,261</u>	<u>\$ 3,265,735</u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

BALLARD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Occupational Tax Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 12,387	\$ 122,324	\$ 4,397	\$ 2,042,988
Total Assets	<u>\$ 12,387</u>	<u>\$ 122,324</u>	<u>\$ 4,397</u>	<u>\$ 2,042,988</u>
FUND BALANCES				
Unreserved:				
General Fund	\$ 12,387	\$ -	\$ -	\$ 2,042,988
Special Revenue Funds		122,324	4,397	
Debt Service Fund				
Total Fund Balances	<u>\$ 12,387</u>	<u>\$ 122,324</u>	<u>\$ 4,397</u>	<u>\$ 2,042,988</u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****June 30, 2006****(Continued)**

Public Properties Corporaton	Non- Major Funds	Total Governmental Funds
<u>\$ 260,533</u>	<u>\$ 94,639</u>	<u>\$ 2,537,268</u>
<u>\$ 260,533</u>	<u>\$ 94,639</u>	<u>\$ 2,537,268</u>

\$ -	\$ -	\$ 2,055,375
	94,639	221,360
<u>260,533</u>		<u>260,533</u>
<u>\$ 260,533</u>	<u>\$ 94,639</u>	<u>\$ 2,537,268</u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 2,537,268
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	6,786,061
Accumulated Depreciation	(2,620,298)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(321,557)
Bonded Debt	<u>(3,165,000)</u>
Net Assets Of Governmental Activities	<u>\$ 3,216,474</u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

BALLARD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Occupational Tax Fund</u>
REVENUES				
Taxes	\$ 775,303	\$ -	\$ -	\$ 970,714
In Lieu Tax Payments	9,433			
Excess Fees	17,991			
Licenses and Permits	630			
Intergovernmental	108,215	1,156,065	369,552	
Charges for Services			34,484	
Miscellaneous	87,162	133,066	62,136	79,925
Interest	46,641	2,467	28,163	72,637
Total Revenues	<u>\$ 1,045,375</u>	<u>\$ 1,291,598</u>	<u>\$ 494,335</u>	<u>\$ 1,123,276</u>
EXPENDITURES				
General Government	\$ 649,034		\$ -	\$ 183,681
Protection to Persons and Property	828		707,456	
General Health and Sanitation	17,417			
Social Services	2,174			
Recreation and Culture	10,269			
Roads		1,121,743		
Debt Service	48,915	62,948		
Capital Expenditures				281,224
Administration	364,381	142,035	172,815	3,472
Total Expenditures	<u>\$ 1,093,018</u>	<u>\$ 1,326,726</u>	<u>\$ 880,271</u>	<u>\$ 468,377</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (47,643)</u>	<u>\$ (35,128)</u>	<u>\$ (385,936)</u>	<u>\$ 654,899</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	510,000	440,000	340,000	60,000
Transfers To Other Funds	(485,000)	(425,000)		(673,757)
Total Other Financing Sources (Uses)	<u>\$ 25,000</u>	<u>\$ 15,000</u>	<u>\$ 340,000</u>	<u>\$ (613,757)</u>
Net Change in Fund Balances	\$ (22,643)	\$ (20,128)	\$ (45,936)	\$ 41,142
Fund Balances - Beginning	35,030	142,452	50,333	2,001,846
Fund Balances - Ending	<u>\$ 12,387</u>	<u>\$ 122,324</u>	<u>\$ 4,397</u>	<u>\$ 2,042,988</u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

<u>Public Properties Corporation</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$ -		\$ 1,746,017
		9,433
		17,991
		630
134,900	80,730	1,849,462
	205,425	239,909
10,194	129	372,612
6,128	593	156,629
<u>\$ 151,222</u>	<u>\$ 286,877</u>	<u>\$ 4,392,683</u>
\$ -	\$ -	\$ 832,715
	279,732	988,016
	6,727	24,144
		2,174
		10,269
		1,121,743
399,904	14,025	525,792
		281,224
	39,610	722,313
<u>\$ 399,904</u>	<u>\$ 340,094</u>	<u>\$ 4,508,390</u>
<u>\$ (248,682)</u>	<u>\$ (53,217)</u>	<u>\$ (115,707)</u>
128,757	105,000	1,583,757
		(1,583,757)
<u>\$ 128,757</u>	<u>\$ 105,000</u>	<u>\$ (0)</u>
\$ (119,925)	\$ 51,783	\$ (115,707)
380,458	42,856	2,652,975
<u>\$ 260,533</u>	<u>\$ 94,639</u>	<u>\$ 2,537,268</u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

BALLARD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (115,707)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	281,224
Depreciation Expense	(283,108)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Bond Principal Payments	245,000
Financing Obligation Principal Payments	<u>70,903</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 198,312</u></u>
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BALLARD COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

BALLARD COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities - Enterprise Fund	Jail Canteen Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 42,299	
Total Current Assets	<u>\$ 42,299</u>	
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	\$ 8,476	
Less Accumulated Depreciation	<u>(1,514)</u>	
Total Noncurrent Assets	<u>\$ 6,962</u>	
Total Assets	<u><u>\$ 49,261</u></u>	
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	\$ 6,962	
Unrestricted	<u>42,299</u>	
Total Net Assets	<u><u>\$ 49,261</u></u>	

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

BALLARD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 5,135
Total Operating Revenues	<u>\$ 5,135</u>
Operating Expenses	
Work Release	\$ 1,600
Educational and Recreational	1,023
Depreciation	1,211
Miscellaneous	996
Total Operating Expenses	<u>\$ 4,830</u>
Operating Income (Loss)	<u>\$ 305</u>
Change In Net Assets	\$ 305
Total Net Assets - Beginning	48,956
Total Net Assets - Ending	<u><u>\$ 49,261</u></u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

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BALLARD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 5,135
Work Release	(1,600)
Educational and Recreational	(1,023)
Miscellaneous	(996)
Net Cash Provided By Operating Activities	<u>1,516</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 \$ 1,516
Cash and Cash Equivalents - July 1	<u>40,783</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 42,299</u></u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

	Business-Type Activities - Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income (Loss)	\$ 305
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>1,211</u>
Net Cash Provided By Operating Activities	<u>\$ 1,516</u>

The accompanying notes are an integral part of the financial statements.

BALLARD COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

BALLARD COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	<u>Agency Fund</u>	
	<u>Inmate Fund</u>	<u>Medical Reimbursement Fund</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 6,312	\$ 45,738
Total Assets	<u>\$ 6,312</u>	<u>\$ 45,738</u>
Liabilities		
Current Liabilities:		
Amounts Held In Custody For Others	\$ 6,312	\$ 45,738
Total Liabilities	<u>\$ 6,312</u>	<u>\$ 45,738</u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Ballard County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Ballard County Public Properties Corporation

The Ballard County Fiscal Court appoints a voting majority of the Ballard County Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Ballard County Public Properties Corporation.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Ballard County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Ballard County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Ballard County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation - The purpose of this fund is to account for debt service requirements of general obligation bonds of the fiscal court. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

Occupational Tax Fund - The purpose of this fund is to account for payroll tax receipts and expenses. The occupational tax fund may be used for general purpose expenses which the county budgeted for general government, debt service, capital projects and administration for the fiscal year. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: DES Fund and Ambulance Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, DES Fund, Ambulance Fund and Occupational Tax Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Funds

The Ballard County Public Properties Corporation is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Jail Inmate Fund - This fund is maintained by the Ballard County Jailer and accounts for monies belonging to the individuals incarcerated at the Ballard County Detention Center.

Medical Reimbursement Fund - This fund was established to account for a flexible spending account offered to the Ballard County employees. If an employee elects not to participate in the County's health insurance program, their employer's monthly health premium contribution is deposited and held in their name to be used by the employee for qualifying medical expenses.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Building Improvements	\$ 5,000	10-20
Machinery and Equipment	\$ 5,000	3-10
Vehicles	\$ 5,000	1-10
Infrastructure	\$ 5,000	10-30

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Governor's Office of Local Development does not require the Public Properties Corporation to be budgeted because debt payments are budgeted in other funds and transferred to the Public Properties Corporation.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the following are considered jointly governed organizations of the Ballard County Fiscal Court: Ballard/Carlisle/Livingston Pubic Library and Ballard County Recreational Board.

Note 2. Deposits

The Ballard County Fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a depository policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits of the primary government were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2005, \$969,170 of public funds were exposed to custodial credit risk as follows:

▪ Uninsured and Unsecured	\$969,170
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BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 221,845		\$ -	\$ 221,845
Total Capital Assets Not Being Depreciated	\$ 221,845	\$ -	\$ -	\$ 221,845
Capital Assets, Being Depreciated:				
Buildings	\$ 5,358,600	\$ 76,009	\$ -	\$ 5,434,609
Vehicles and Equipment	924,392	205,215		1,129,607
Total Capital Assets Being Depreciated	\$ 6,282,992	\$ 281,224	\$ -	\$ 6,564,216
Less Accumulated Depreciation For:				
Buildings	\$ (1,707,818)	\$ (196,580)	\$ -	\$ (1,904,398)
Vehicles and Equipment	(629,372)	(86,528)		(715,900)
Total Accumulated Depreciation	\$ (2,337,190)	\$ (283,108)	\$ -	\$ (2,620,298)
Total Capital Assets, Being Depreciated, Net	\$ 3,945,802	\$ (1,884)	\$ -	\$ 3,943,918
Governmental Activities Capital Assets, Net	\$ 4,167,647	\$ (1,884)	\$ -	\$ 4,165,763
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 8,476		\$ -	\$ 8,476
Total Capital Assets Being Depreciated	\$ 8,476	\$ -	\$ -	\$ 8,476
Less Accumulated Depreciation For:				
Vehicles and Equipment	\$ (303)	\$ (1,211)	\$ -	\$ (1,514)
Total Accumulated Depreciation	\$ (303)	\$ (1,211)	\$ -	\$ (1,514)
Total Capital Assets, Being Depreciated, Net	\$ 8,173	\$ (1,211)	\$ -	\$ 6,962
Business-Type Activities Capital Assets, Net	\$ 8,173	\$ (1,211)	\$ -	\$ 6,962

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 134,157
Protection to Persons and Property	26,634
Roads	<u>122,317</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 283,108</u>

Business-Type Activities

Jail Canteen	<u>\$ 1,211</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,211</u>

Note 4. Short-term Debt

In July 2004, Ballard County participated in the Kentucky Association of Counties Advance Revenue Program (KARP) by issuing a note in the amount of \$2,290,500, with principal being due in January 2005. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Advance Revenue Program of \$9,746.

Changes In Short-term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Kentucky Advance Revenue Program	<u>\$ -</u>	<u>\$ 2,127,700</u>	<u>\$ 2,127,700</u>	<u>\$ -</u>
Short-term Liabilities	<u>\$ -</u>	<u>\$ 2,127,700</u>	<u>\$ 2,127,700</u>	<u>-</u>

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt

A. General Obligation Detention Facility Refinancing Bonds, Series 2002

Ballard County issued general obligation detention facility refinancing bonds, series 2002, dated October 1, 2002, for the purpose of 1) advance refunding all of the outstanding Series 1995A bonds issued by the Ballard County Public Properties Corporation; and, 2) paying the cost of issuance on the bonds. As of June 30, 2005, the Series 1995A bonds had been called. Ballard County issued \$2,070,000 of refinancing bonds, the proceeds of which were used to discharge all prior bonds. As of June 30, 2006, outstanding bond principal was \$1,510,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	145,000	54,157
2008	150,000	50,170
2009	150,000	45,520
2010	160,000	40,495
2011	165,000	34,895
2012-2015	740,000	75,200
Totals	<u>\$ 1,510,000</u>	<u>\$ 300,437</u>

B. Courthouse Facility First Mortgage Revenue Bonds, Series 1995B

The Ballard County Public Properties Corporation issued first mortgage revenue bonds, series 1995B, dated September 1, 1995, for the purpose of renovating the Ballard County courthouse. Original amount issued was \$2,420,000. Interest rates range from 5.6%-5.7%. Principal on bonds is due September 1 of each year and interest is due March 1 and September 1 of each year. As of June 30, 2006, outstanding bond principal was \$1,655,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	110,000	91,172
2008	120,000	84,645
2009	125,000	77,662
2010	135,000	70,253
2011	140,000	62,415
2012-2016	830,000	178,980
2017	195,000	5,558
Totals	<u>\$ 1,655,000</u>	<u>\$ 570,685</u>

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

C. Financing Agreement - Road Project

On November 1, 2000, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the financing of a road paving project to be located and used in Ballard County, Kentucky. The principal of the lease is \$500,000 with repayment to be made over a ten year period. Principal payments are due monthly on the 20th of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2006, outstanding lease principal was \$249,650. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2007	50,736	11,455
2008	53,332	8,878
2009	56,062	6,153
2010	58,932	3,293
2011	30,588	529
Totals	<u>\$ 249,650</u>	<u>\$ 30,308</u>

D. Financing Agreement - Ambulance

On July 20, 2004, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the purchase of an ambulance to be used in Ballard County, Kentucky. The principal of the lease is \$63,549 with repayment to be made over a five year period. Principal payments are due monthly on the 20th of each month in variable amounts. Interest at a fixed rate of 2.8% plus associated fees are due monthly in variable amounts. As of June 30, 2006, outstanding lease principal was \$39,177. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2007	12,700	1,226
2008	13,056	769
2009	13,421	294
Totals	<u>\$ 39,177</u>	<u>\$ 2,289</u>

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

E. Financing Agreement - Recording Equipment

On June 24, 2004, Ballard County entered into a financing agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the purchase of recording equipment to be used in the Ballard County Clerk's office. The principal of the lease is \$53,000 with repayment to be made over a five year period. Principal payments are due monthly on the 20th of each month in variable amounts; interest plus associated fees are due monthly in variable amounts. As of June 30, 2006, outstanding lease principal was \$32,730. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2007	10,591	1,413
2008	10,907	877
2009	11,232	323
Totals	<u>\$ 32,730</u>	<u>\$ 2,613</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 1,650,000	\$	\$ 140,000	\$ 1,510,000	\$ 145,000
Revenue Bonds	1,760,000		105,000	1,655,000	110,000
Financing Obligations	392,460		70,903	321,557	74,027
Governmental Activities Long-term Liabilities	<u>\$ 3,802,460</u>	<u>\$ 0</u>	<u>\$ 315,903</u>	<u>\$ 3,486,557</u>	<u>\$ 329,027</u>

Note 6. Interest On Long-term Debt and Short-term Debt

Interest on Long-term Debt on the Statement of Activities includes \$54,985 in interest on financing obligations and \$154,904 in interest on bonds.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Employee Retirement System

Ballard County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

The Ballard County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2006, Ballard County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 623,021	\$ 623,021	\$ 775,303	\$ 152,282
In Lieu Tax Payments	6,500	6,500	9,433	2,933
Excess Fees	14,300	14,300	17,991	3,691
Licenses and Permits	800	800	630	(170)
Intergovernmental Revenue	2,064,546	2,064,546	108,215	(1,956,331)
Miscellaneous	90,960	90,960	87,162	(3,798)
Interest	2,400	2,400	46,641	44,241
Total Revenues	<u>\$ 2,802,527</u>	<u>\$ 2,802,527</u>	<u>\$ 1,045,375</u>	<u>\$ (1,757,152)</u>
EXPENDITURES				
General Government	\$ 692,242	\$ 769,485	\$ 649,034	\$ 120,451
Protection to Persons and Property	2,828	2,828	828	2,000
General Health and Sanitation	14,532	15,620	17,417	(1,797)
Social Services	1,603,000	1,603,000	2,174	1,600,826
Recreation and Culture	50,000	50,000	10,269	39,731
Debt Service	365,500	268,808	48,915	219,893
Administration	368,500	386,861	364,381	22,480
Total Expenditures	<u>\$ 3,096,602</u>	<u>\$ 3,096,602</u>	<u>\$ 1,093,018</u>	<u>\$ 2,003,584</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (294,075)</u>	<u>\$ (294,075)</u>	<u>\$ (47,643)</u>	<u>\$ 246,432</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money	\$ 350,000	\$ 350,000	\$ -	\$ (350,000)
Transfers From Other Funds	8,300	8,300	510,000	501,700
Transfers To Other Funds	(114,225)	(114,225)	(485,000)	(370,775)
Total Other Financing Sources (Uses)	<u>\$ 244,075</u>	<u>\$ 244,075</u>	<u>\$ 25,000</u>	<u>\$ (219,075)</u>
Net Changes in Fund Balance	\$ (50,000)	\$ (50,000)	\$ (22,643)	\$ 27,357
Fund Balance - Beginning	50,000	50,000	35,030	(14,970)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,387</u>	<u>\$ 12,387</u>

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 923,696	\$ 923,696	\$ 1,156,065	\$ 232,369
Miscellaneous	252,692	252,692	133,066	(119,626)
Interest	15,000	15,000	2,467	(12,533)
Total Revenues	<u>\$ 1,191,388</u>	<u>\$ 1,191,388</u>	<u>\$ 1,291,598</u>	<u>\$ 100,210</u>
EXPENDITURES				
Roads	\$ 1,336,744	\$ 1,359,525	\$ 1,121,743	\$ 237,782
Debt Service	190,400	137,146	62,948	74,198
Administration	137,305	167,778	142,035	25,743
Total Expenditures	<u>\$ 1,664,449</u>	<u>\$ 1,664,449</u>	<u>\$ 1,326,726</u>	<u>\$ 337,723</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (473,061)</u>	<u>\$ (473,061)</u>	<u>\$ (35,128)</u>	<u>\$ 437,933</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money	\$ 185,000	\$ 185,000	\$ -	\$ (185,000)
Transfers To Other Funds			(425,000)	(425,000)
Transfers From Other Funds	278,061	278,061	440,000	161,939
Total Other Financing Sources (Uses)	<u>\$ 463,061</u>	<u>\$ 463,061</u>	<u>\$ 15,000</u>	<u>\$ (448,061)</u>
Net Changes in Fund Balance	\$ (10,000)	\$ (10,000)	\$ (20,128)	\$ (10,128)
Fund Balance - Beginning	<u>10,000</u>	<u>10,000</u>	<u>142,452</u>	<u>132,452</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 122,324</u>	<u>\$ 122,324</u>

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 472,000	\$ 542,000	\$ 369,552	\$ (172,448)
Charges for Services	56,500	56,500	34,484	(22,016)
Miscellaneous	51,000	51,000	62,136	11,136
Interest	26,800	26,800	28,163	1,363
Total Revenues	\$ 606,300	\$ 676,300	\$ 494,335	\$ (181,965)
EXPENDITURES				
Protection to Persons and Property	\$ 698,881	\$ 703,971	\$ 707,456	\$ (3,485)
Administration	147,100	212,010	172,815	39,195
Total Expenditures	\$ 845,981	\$ 915,981	\$ 880,271	\$ 35,710
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ (239,681)	\$ (239,681)	\$ (385,936)	\$ (146,255)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	\$ 238,681	\$ 238,681	\$ 340,000	\$ 101,319
Total Other Financing Sources (Uses)	\$ 238,681	\$ 238,681	\$ 340,000	\$ 101,319
Net Changes in Fund Balance	\$ (1,000)	\$ (1,000)	\$ (45,936)	\$ (44,936)
Fund Balance - Beginning (Restated)	1,000	1,000	50,333	49,333
Fund Balance - Ending	\$ 0	\$ 0	\$ 4,397	\$ 4,397

BALLARD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,156,153	\$ 1,156,153	\$ 970,714	\$ (185,439)
Miscellaneous			79,925	79,925
Interest	115,750	115,750	72,637	(43,113)
Total Revenues	\$ 1,271,903	\$ 1,271,903	\$ 1,123,276	\$ (148,627)
EXPENDITURES				
General Government	\$ 393,190	\$ 543,190	\$ 183,681	\$ 359,509
Debt Service	1,217,460	1,217,460	-	1,217,460
Capital Projects	1,072,056	921,361	281,224	640,137
Administration	4,540	5,235	3,472	1,763
Total Expenditures	\$ 2,687,246	\$ 2,687,246	\$ 468,377	\$ 2,218,869
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ (1,415,343)	\$ (1,415,343)	\$ 654,899	\$ 2,070,242
OTHER FINANCING SOURCES (USES)				
Borrowed Money	\$ 350,000	\$ 350,000	\$ -	\$ (350,000)
Transfers To Other Funds	(333,052)	(333,052)	(673,757)	(340,705)
Transfers From Other Funds			60,000	60,000
Total Other Financing Sources (Uses)	\$ 16,948	\$ 16,948	\$ (613,757)	\$ (630,705)
Net Changes in Fund Balances	\$ (1,398,395)	\$ (1,398,395)	\$ 41,142	\$ 1,439,537
Fund Balances - Beginning	1,398,395	1,398,395	2,001,846	603,451
Fund Balances - Ending	\$ 0	\$ 0	\$ 2,042,988	\$ 2,042,988

BALLARD COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Actual Operating Expenditures reported in the Statement of Revenue, Expenditures And Changes in Fund Balance does not agree with budget operating expenditures reported in the Required Supplementary Information (RSI) due to the Public Properties Corporation not being budgeted. The Governor's Office of Local Development does not require the Public Properties Corporation to be budgeted because debt payments are budgeted in other funds and transferred to the Public Properties Corporation.

Budgeted Expenditures Reported in RSI	\$4,108,486
Expenditures from Public Properties	<u>\$ 399,904</u>
Actual Operating Expenditures reported	
In Statement of Revenues, Expenditures	
And Changes in Fund Balance	<u>\$4,508,390</u>

**BALLARD COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

BALLARD COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	DES Fund	Ambulance Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 57,682	\$ 36,957	\$ 94,639
Total Assets	<u>\$ 57,682</u>	<u>\$ 36,957</u>	<u>\$ 94,639</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	\$ 57,682	\$ 36,957	\$ 94,639
Total Fund Balances	<u>\$ 57,682</u>	<u>\$ 36,957</u>	<u>\$ 94,639</u>

BALLARD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

BALLARD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	<u>DES Fund</u>	<u>Ambulance Fund</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES			
Intergovernmental	\$ 70,713	\$ 10,017	\$ 80,730
Charges for Services		205,425	205,425
Miscellaneous	129		129
Interest		593	593
Total Revenues	<u>\$ 70,842</u>	<u>\$ 216,035</u>	<u>\$ 286,877</u>
EXPENDITURES			
Protection to Persons and Property	\$ 30,611	\$ 249,121	\$ 279,732
General Health and Sanitation	6,727		6,727
Debt Service		14,025	14,025
Administration	6,700	32,910	39,610
Total Expenditures	<u>\$ 44,038</u>	<u>\$ 296,056</u>	<u>\$ 340,094</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ 26,804</u>	<u>\$ (80,021)</u>	<u>\$ (53,217)</u>
OTHER FINANCING SOURCES (USES)			
Transfers From Other Funds	\$ 20,000	85,000	\$ 105,000
Total Other Financing Sources (Uses)	<u>\$ 20,000</u>	<u>\$ 85,000</u>	<u>\$ 105,000</u>
Net Change in Fund Balances	46,804	4,979	51,783
Fund Balances - Beginning	10,878	31,978	42,856
Fund Balances - Ending	<u><u>\$ 57,682</u></u>	<u><u>\$ 36,957</u></u>	<u><u>\$ 94,639</u></u>

**BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2006

**BALLARD COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2006

STATE LAWS AND REGULATIONS

The Fiscal Court Should Approve All County Employees' Compensation Rates In Accordance With KRS 64.530(1)

According to KRS 64.530(1), the Fiscal Court shall annually fix the compensation of each county officer and employee. Currently, the Fiscal Court approves wage compensations for all county employees through the approval of the original budget. In order to comply with KRS 64.530, we recommend that, at the beginning of each fiscal year, a list of each employee, by job position, along with his/her compensation rate, be listed and approved by the Fiscal Court. This list as approved by the Fiscal Court should be documented in the Fiscal Court Order Book.

Management's Response: None

REPORTABLE CONDITIONS

The Quarterly Financial Report Should Be Accurate

According to KRS 68.020(4), the County Treasurer "shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the State Local Finance Officer". The County Treasurer should prepare a quarterly financial report for the State Local Finance Officer. In addition, the County Judge/Executive is required to keep certain records and make certain reports. The County Judge/Executive may delegate these duties to a finance director. However, the County Judge/Executive is responsible for the county's quarterly financial report pursuant to KRS 68.360(2). The quarterly financial report submitted to the State Local Finance Officer by the County Treasurer was not accurate or complete.

We recommend that the County Treasurer reconcile bank information and certificate of deposits to the balances and amounts stated in the quarterly financial report. We recommend the County Judge/Executive or his designee review the quarterly financial report and supporting documentation to make sure that it is accurate and complete.

Management's Response: None

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Bob Buchanan, Former Ballard County Judge/Executive
The Honorable Vickie Viniard, Ballard County Judge/Executive
Members of the Ballard County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ballard County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated May 24, 2007. Ballard County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ballard County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Ballard County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The Quarterly Financial Report Should Be Accurate

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness.

- The Quarterly Financial Report Should Be Accurate

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Ballard County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of material noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Fiscal Court Should Approve All County Employees' Compensation Rates In Accordance With KRS 64.530(1)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Krista L. Romaine, CPA

Krista L Romaine, CPA
Romaine & Associates, PLLC

May 24, 2007